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Foreign Debts and America's Balance of Trade

*An Analysis of How Foreign Countries Are Meeting Their Annual Payments to the United States**

THE question of how foreigners can secure the dollars with which to meet their annual payments on war debts and American investments abroad and, as a corollary, how the United States can receive these payments without seriously affecting its foreign trade is of paramount importance to the future economic relationships of the United States and the rest of the world. Many European economists assert that the United States must make it easier for Europe to dispose of its merchandise in the United States. At the same time, many American business men and economists have confidently predicted that if the United States is to receive these payments, it is inevitably faced with a drastic change from a "favorable" to an "unfavorable" balance of trade. It is only by such a fundamental alteration in our trade balance, so it is argued, that the United States can possibly receive interest payments on its large investments in foreign countries.

The last decade and a half has brought a fundamental change in our international economic position. In that brief space of time we have changed from the world's largest borrower of capital to the world's largest lender; from an interest-paying to an interest-receiving nation. The purely financial aspects of this transformation have been reviewed at length in two supplements to the *Information Service*[1] and need no further elaboration here. The present report is limited to an analysis of how payments on account of war debts and private investments abroad were received in 1926 and the relation between these payments and our foreign trade, new foreign loans and "invisible" items which go to make up our balance of international payments. The political implications of our creditor position are not discussed.

Although foreign loans are made in terms of money, actually they represent goods and services exported in excess of the value of goods and services imported. Except in very rare instances our foreign loans are not made by a direct transfer of gold or cur-

1. Winkler, Max, "America, the World's Banker," F. P. A. *Information Service,* Vol. III, Supplement n. 3; Jones, Lewis W., "The United States and the War Debts," F. P. A. *Information Service,* Vol. III, Supplement n. 1.

*This report was prepared by Dr. Lewis Webster Jones, formerly of the Research Staff of the Foreign Policy Association.

rency to the borrowing country. In general, these loans serve the purpose of providing foreigners with dollars with which to pay for goods purchased from American farmers and manufacturers. The underlying significance of this is that since 1914 the United States has been consistently exporting in far larger quantities than it has imported, and payment has been made in paper claims of one sort or another against foreign countries, which in essence are a form of deferred payment bearing interest at a stipulated rate. These payments of interest and of the original capital, if that is to be returned, must in the long run be made in practically the same way in which the debts were contracted—in terms of goods and services.

HOW PAYMENTS CAN BE MADE

While this is essentialy true, it does not necessarily follow that the only way in which the United States can receive payment is by accepting a heavy adverse balance of merchandise and precious metals. It is obvious that expenditures of American tourists abroad provide foreigners with American dollars just as foreign merchandise sent to the United States provides them with dollars, and that these expenditures constitute an "import" on the total balance of our international payments in the same sense as merchandise and gold.

There are, in fact, several possible ways by which foreigners can secure the dollar exchange with which to meet their payments to the United States and by which the United States can receive payment:

1. The first is most frequently mentioned: By a reversal of the trade balance of the United States in merchandise and precious metals of such magnitude that it will not only wipe out the present export balance, but also give the United States an import balance as large as the net principal and interest and dividend payments which it is due to receive. In other words, the debtor countries would be required to ship, either directly or indirectly, more merchandise and precious metals to the United States than they import from this country. The qualification "directly or indirectly" is necessary because the debtor countries need not export directly to the United States. Germany or France, for example, may have an export balance with South America, and the United States an import balance with that continent. By this triangular process, France or Germany would be able to secure dollars from their export balance with South America to meet their obligations to the United States.

In any case, it is important to note that the United States must have an import balance of merchandise and precious metals in its total balance of trade with the rest of the world, while the debtor countries must have an export balance on the total of their world trade, if payments are actually to be made in terms of merchandise, gold and silver.

2. The second method by which these adjustments can be made is by the United States having a heavy adverse balance of payments in the so-called "invisible" items entering into the total balance of its commercial relations with the outside world. This must be sufficiently large both to offset the export balance on merchandise and precious metals and to take care of dividend and interest and principal payments on the capital indebtedness of foreigners to the United States.

In other words, foreigners must receive payments from Americans for tourist expenditures, shipping services, missionary and philanthropic enterprises in foreign countries, immigrants' remittances, etc. of a sufficient net value to make up whatever deficit there may be on account of merchandise and precious metals and interest and capital payments.

3. It is obvious that any combination of the two methods outlined above would bring about the same result. The important fact is that the United States must have a debit balance on all current items (visible and invisible) in its total balance of international payments. Whether there is an import or an export balance of merchandise is of little consequence as far as adjustments for interest payments are concerned, providing there is a sufficiently large import balance on other invisible items.

4. Finally, it is possible for adjustments for interest and dividend payments to be made without an import balance on current

international transactions, providing that the United States lends to foreign countries amounts sufficient to make up whatever balance there may be on current transactions and in addition to pay the amounts due in the form of interest and dividends. Interest charges may be liquidated by creating new debts—in other words, interest is re-invested. This method of liquidating current obligations, however, only serves to increase the total indebtedness of foreigners to the United States and, in consequence, increases the current annual interest charges which they will eventually be called upon to meet.

HOW MUCH ARE FOREIGNERS REQUIRED TO PAY?

At the present time the United States is the gross long-term creditor of the rest of the world to the extent of approximately $13,000,000,000, exclusive of the war debts, the present value of which is approximately $6,800,000,000. It is quite inadequate, however, to measure foreign indebtedness to the United States merely by the gross volume of foreign securities floated in the American market. In order to get an accurate picture of the net amount of this indebtedness, it is necessary to deduct from the gross total the amount of investments by foreigners in the United States, the re-purchase by foreigners of bonds previously held by Americans and the amounts that are deposited in American banks by foreigners. When these items are taken into account the net indebtedness of foreigners to the United States is probably somewhere between eight and ten billion dollars[2].

What more immediately concerns our position as an exporting nation, however, are the payments of dividend and interest which foreigners are required to meet on this large capital investment. Dividends due Americans on private investments abroad in 1926 amounted to $678,000,000,[3] while the principal and interest which the United States Government received on account of the war debts in 1926 amounted to $195,000,000. This brings the total sum that foreigners were required to pay the United States in the form of dividends on private investments and interest and principal on the war debts to between $800,000,000 and $1,000,000,000 a year. As this is a gross figure, deductions must be made for certain interest charges which the United States is required to pay to foreigners on their investments and short-term deposits in this country.

In 1926 the United States paid foreigners about $150,000,000 a year on the $3,000,000,000 of their investments in this country and in addition, paid foreigners on short-term obligations approximately $21,000,000 more than it received from them, because of its position as a deposit-holding nation[4].

With allowances for the receipt of interest-payments, therefore, the net annual payments from foreign countries would amount to from $600,000,000 to $800,000,000 a year. The following is a statement of the case in the form of a table using the more conservative estimates:[5]

Dividends upon private American investments abroad	$678,000,000
Interest and principal payments on intergovernmental debts	195,000,000
Total interest and dividends	$873,000,000
Less interest paid on foreign investments in the U. S.	150,000,000
Net interest and dividends (Funded indebtedness)	$723,000,000
Net unfunded interest of the United States to foreigners	21,000,000
Principal and interest, and dividends paid United States	$702,000,000

2. U. S. Department of Commerce. *Balance of International Payments of the United States in 1926.*"

3. Ibid. This is probably an under-estimate rather than an over-estimate, since varous private investigators have calculated it at $750,000,000 a year.
4. Foreign Policy Association. *Balance of Internatonal Payments of the United States. A review. Information Service,* Vol. III, n. 13.
5. U. S. Department of Commerce. Ibid.

HOW PAYMENTS WERE RECEIVED IN 1926

How these payments were received in 1926 is strikingly shown by the Department of Commerce in a study of the balance of our international payments for that year. This study of our balance of international payments points to several conclusions:

1. That the net debit balance on all non-capital invisible items, such as tourist expenditures and immigrants' remittances, was large enough not only to offset the $702,000,000 which foreign countries were required to pay in interest and dividends, but also to offset a large proportion of our credit balance on merchandise, gold and silver, amounting to $350,000,000. In other words, foreigners obtained the dollars with which to meet their payments to the United States primarily from "services" rendered Americans rather than from goods.

2. That contrary to what has commonly been believed, our net growth as a capital exporting nation amounted to only 557,000,000, without taking into consideration the increase of foreign bank deposits in the United States. These represent short-term investments, and if they are deducted from the net total above, our net growth as a foreign investing nation for the year 1926 amounted to only $198,000,000. The United States, was, therefore, able to receive almost the entire amount of the dividend and interest payments due it, while at the same time maintaining a large export balance of trade.

INVISIBLE ITEMS SHOW DEBIT BALANCE

The important factors in our invisible transactions for 1926 may be briefly reviewed.

TOURIST EXPENDITURES

With the exception of new foreign investments, this is the largest invisible item in our balance of international payments and has been a large item since 1896. As the Department of Commerce points out[6]:

> The funds spent by American tourists abroad belong to the same general category as immigrants' remittances, and American contributions for religion, science or relief abroad. The goods and services which our tourists purchase abroad are in a sense imports by the American people, although they are not valued by the customs inspector.

Under the general category of tourists' expenditures are included not only the "expenditures of tourists," but also those of Americans living in foreign countries, whether persons of great wealth or persons of small means. Last year expenditures of Americans abroad aggregated $761,000,000, but to be balanced against this are the expenditures of foreign tourists in the United States, valued at $115,000,000. Tourist traffic in 1926, therefore, constituted a net invisible import of about $646,000,000. For the purpose of comparing this with tourists' expenditures in previous years, the following table is given:

Year	Net Balance
1920	– $150,000,000
1921	– 200,000,000
1922	– 300,000,000
1923	– 400,000,000
1924	– 500,000,000
1925	– 560,000,000
1926	– 646,000,000

FREIGHT MOVEMENTS

In the early history of the United States the American merchant marine enjoyed its full share of the carrying trade of the world. At the time of the Civil War, however, our merchant marine virtually passed from the seas and was not revived again until the World War. Since the war the net earnings of the merchant marine have been declining rapidly, as shown in the following table:

Year	Net Balance
1920	$93,000,000
1921	33,000,000
1922	7,000,000
1923	– 8,000,000
1924	8,000,000
1925	– 8,000,000
1926	– 68,000,000

IMMIGRANTS' REMITTANCES

Fifteen million persons of foreign birth living within the United States make regular remittances to their friends and relatives abroad in the form of drafts, currency and postal money orders. The goods and services purchased with these funds are properly regarded by the Department of Commerce as invisible imports, since "residents of the United States when they make money gifts

6. Ibid.

to persons abroad consume foreign goods by proxy instead of importing them to consume in person." The Department of Commerce estimates that $322,000,000 were sent abroad in 1926 in the form of immigrants' remittances. From this must be deducted $35,000,000 which it is estimated have been brought in by immigrants, leaving a net invisible import of $287,000,000.

CONTRIBUTIONS TO CHARITY

Since the war there has been a decrease in the total of American contributions to foreign missions, relief, education and scientific research. In 1926 these free contributions were estimated by the Department of Commerce at $46,135,000.

There are also a few invisible credits which heretofore have not been estimated. These include receipts on ocean-borne passenger traffic, motion picture royalties and insurance. The last two need no explanation. Ocean-borne traffic is listed as a credit item because of the fact that payments to foreign steamship companies by Americans are listed under tourists' expenditures and therefore cannot be included here again.

The following table reveals in a more compact form the sources from which foreigners obtained the dollars with which to meet their payments to the United States:

INVISIBLE ITEMS	Export Balance	Import Balance
U. S. paper currency returned		$ 40,000,000
Freight payments and receipts		68,000,000
Tourist expenditures		646,000,000
Ocean-borne passenger traffic	$ 63,000,000	
Yield on short-term interest and commissions		21,000,000
Immigrants' remittances		287,000,000
U. S. Government receipts and payments (excluding receipts of interest and principal on war debts)		51,000,000
Charitable and missionary contributions		46,000,000
Motion picture royalties	71,000,000	
Insurance transactions	10,000,000	
Miscellaneous minor transactions		10,000,000
	$144,000,000	$1,169,000,000
Total Net Import Balance		$1,025,000,000

The total amount which foreigners paid the United States in interest and dividends on war debts and private investments, plus the amount necessary to offset our credit balance on merchandise and precious metals was $1,073,000,000, or only $48,000,000 more than the amount received on "invisibles."

EXTENT OF NEW AMERICAN INVESTMENTS

It is believed by many that foreigners were enabled to pay their obligations to the United States by the continued lending by Americans to foreign countries of amounts sufficient to make up the deficit on current transactions and to pay the amounts due in the form of interest and dividends. When the entire movement of international securities is taken into account, however, the net amount of increase in our investments abroad, as pointed out above, was only $198,000,000. A complete statement of the movement of international securities is shown in the following table:

	(Millions of dollars) Credits	Debits
New American investments abroad	...	1,332
Changes in previous American investments abroad:		
Bond redemption payments to Americans	250	...
Sinking-fund payments to Americans	20	...
Resale to foreigners of direct investments	200	...
Foreign stocks and bonds sold abroad	286	...
Foreign stocks and bonds bought from foreigners in small lots	...	115

(*Continued on next page*)

	Credits	Debits
Brought forward	756	1,447
New direct investments in United States by foreigners	32	...
Changes in previous foreign investments in United States:		
Redemption and sinking-fund payments to foriegners	...	25
American stocks and bonds sold abroad	636	...
American stocks and bonds bought abroad	...	509
Total of private funded capital items	1,424	1,981
Changes in deposits in United States Banks	359	
	1,783	
Net growth as creditor country		198

As previously shown, however, foreign loans and investments are seldom accompanied by an actual transfer of gold. With few exceptions the gold remains in the country making the loan and forms the basis for purchases of goods on credit by the borrowers. Thus the net value of foreign investments in a single year is actually represented by goods and services exported in excess of goods and services imported. In other words, the net value of new American investments abroad in 1926, estimated at $198,000,000, actually represents the excess of all of the current credit items over the debit items shown in our balance of payments for that year. This is shown in the following table, which summarizes our complete balance of payments.

	(In millions of dollars) Credit Balance	Debit Balance
Invisible items	...	1,004
Interest and dividends on war debts and private investments	702	....
Merchandise and precious metals	350	....
	1,052	1,004
Excess of credits, or new investments accounted for	48	
Unaccounted for[7]	150	
Total	198	

7. This amount is listed as "unaccounted for" in the Balance of International Payments because of the impossibility of determining the precise figures on a great many obscure items.

PROPORTION OF PAYMENTS MET BY "INVISIBLES"

In 1926, therefore, foreigners were only required to meet $48,000,000, or 5 percent of their payments to the United States, out of new foreign investments. In other words, 95 percent was covered by dollars received from invisible items. Although the percentage offset by invisible items has varied considerably during the past five years, in no case has it fallen below 67 percent. The percentage of total payments by foreigners offset by invisible items since 1922 is as follows:

1922	81%
1923	123%
1924	73%
1925	67%
1926	95%

While it is obvious that foreigners have been enabled to meet a part of their payments to the United States by continued borrowing, the extent to which they have used new American loans for that purpose is less than is generally believed.

MERCHANDISE IMPORTS AND EXPORTS

The chief visible items in our balance of international payments for 1926 were merchandise, gold and silver, and several minor items heretofore not taken into account. All of these items showed a credit balance.

The total merchandise exports and imports in 1926 were $4,808,660,000 and $4,430,888,000 respectively, the excess of exports being only about $377,772,000. While this "favorable" balance of trade is consider-

ably lower than the surplus for four of the five years prior to 1926, it does not necessarily indicate a permanent change in our commodity balance. The "favorable" balance for the first six months in 1927 shows a proportionate increase over 1926.[8] A record of our total exports and imports is shown as follows[9]:

Year	Exports	Imports	Excess of Exports
1922	3,831,777,000	3,112,747,000	719,030,000
1923	4,167,493,000	3,792,066,000	375,427,000
1924	4,590,984,000	3,609,963,000	981,021,000
1925	4,909,848,000	4,226,589,000	683,058,000
1926	4,808,660,000	4,430,888,000	377,772,000

Many factors not influenced by the payments of interest and dividends which the United States is receiving from foreigners, such as, for example, agricultural conditions both in the United States and abroad, affect our commodity trade. Why these fluctuations in our merchandise export balance do not mark a decline in American prosperity due to the receipt of payments by foreigners on their various debts to the United States is shown in a later section of this report.

In addition to our merchandise export balance of $377,000,000 the Department of Commerce has estimated several other visible items which have not heretofore been taken into account, such as sales of coal and oil to foreign vessels, charges for repairs upon foreign ships in American harbors, sale of ships, unrecorded parcel post shipments, and smuggled liquor imports. The net export balance for the year 1926 on these is $49,000,000 making a total "favorable" balance on all visible items, with the exception of gold and silver, of $426,000,000.

GOLD AND SILVER MOVEMENT

In 1926 our silver exports exceeded our silver imports by $22,661,598. Silver is a regular merchandise commodity in foreign trade, but is transferred in relatively such small quantities that it does not greatly influence the total balance of trade.

Contrary to predictions, there was a net import of gold during 1926 of $97,996,205. As far as our trade balance is concerned, the exports and imports of gold are of little importance. As the Department of Commerce points out, there is no relation whatsoever between the movement of gold and the monthly merchandise balances.

"Much of the gold imported is received on deposit, or for conversion into foreign exchange; and much of our gold exports were withdrawals of deposit. Whenever a foreign central bank finds that its gold stocks exceed the minimum reserve against its issue and deposits, it is likely to deposit the excess gold in an American bank. . . . With this strictly deposit business going on, and with the present immense operations in international credit, both short-term and long-term, it is evident that neither do international gold shipments reflect exclusively the settlement of international accounts, nor are they as important as formerly in the settlement of such accounts."

WHAT OF THE FUTURE?

The foregoing analysis has shown that foreigners were enabled to meet their annual payments to the United States largely as a result of the very great part that the so-called "invisible" items have come to play in the settlement of our international commercial balances. Whether these "invisible" items will in the future expand rapidly enough to meet the growing interest and dividend charges that foreigners will be required to pay is a question of the greatest interest and importance.

While interest and dividends due the United States will continue to grow, it is doubtful if the rate of increase will be as rapid as is generally assumed. Interest and principal payments on the war debts will increase, it is true, but these payments will grow very slowly over a period of sixty-two years, from the $195,000,000 which were paid in 1926 to about $415,000,000 in 1987-88. Private American investments abroad will also increase, but the fact should not be overlooked that the investments of foreigners in this country probably will continue to be very large. Although a large part of the increase in foreign investments in the United States in recent years has resulted from the so-called "flights of capital" from

8. U. S. Bureau of Foreign and Domestic Commerce, Monthly Summary of Foreign Commerce. June, 1927. The "favorable" balance for the six months ending June, 1927, is estimated at $242,560,000.

9. U. S. Bureau of Foreign and Domestic Commerce. Statistical Abstract of the United States. 1926.

European countries with depreciating currencies, "there is evidence," as the study of the Department of Commerce points out, "that British and Dutch investors are gradually reverting to their pre-war custom of investing in American securities. Canadian holdings here are large and seem to be increasing. American stocks and bonds are regularly bought and sold on all leading stock markets abroad."

These investments of foreigners in the United States must be reckoned as a factor offsetting in part the interest that foreigners are required to pay American security holders, as they give rise to interest payments in the opposite direction. Similar interest payments arise out of our short-term indebtedness. At the end of 1926, foreigners had about $1,500,000,000 on deposit in our banks and the gross debt of American banks to foreigners was about $2,250,000,000.

PROBABLE INCREASE ON INVISIBLE ITEMS

It is, of course, quite impossible to predict with accuracy what changes may be expected in our balance of international payments. However, it seems reasonable to expect an increase in the "unfavorable" balance on three of the most important "invisible" items entering into our balance of international payments.

With a large number of wealthy Americans establishing permanent homes in foreign countries, and the increasingly large number of students and tourists who are going abroad each year, American tourist expenditures will doubtless continue to increase beyond the $761,000,000 that were spent for these purposes in 1926.

It seems reasonable to expect a similar increase in the "unfavorable" balance from freight payments. The American merchant marine is unable to compete successfully with the merchant marines of other countries. This "unfavorable" balance will undoubtedly increase very rapidly unless Congress listens to the appeal of the shipping interests and provides a subsidy.

Immigrants' remittances have steadily increased since the nineties. Although the Immigration Act has cut off a large amount of immigration to the United States, under the "quota system" and through the smuggling of aliens into the United States, our foreign population, although perhaps decreasing in relation to our total population, will not decrease in absolute numbers. With the high degree of prosperity in the United States in comparison to that in other countries, it is possible that immigrants' remittances will remain a large item in our invisible imports for a number of years, or at least during the life of the present generation of foreign-born residents.

The fourth important item in our "invisible" imports, i. e. American contributions to missionary, charitable and other philanthropic enterprises abroad, has decreased since 1920. This is due in large part to the falling off in the contributions for relief in Europe. With American missionary activity continuing in foreign countries and increasing endowments for education and scientific research abroad, it is possible that contributions to charity will remain at least up to their present level.

HOW OUR COMMODITY BALANCE WILL BE AFFECTED

While the debit items in our invisible international transactions will undoubtedly increase, it is still doubtful if this increase will be sufficiently large to meet the growing interest payments that foreigners are required to make to the United States, and the question arises as to how these adjustments will affect our commodity balance of trade. While it is impossible to answer this question with any degree of finality, there are certain factors of major importance which must be taken into consideration.

1. That the adjustment of our commodity balance of trade to meet whatever interest or dividend payments are required need not, and probably will not, come about by the contraction of our exports, but rather by an increase in our imports of foreign commodities. This trend has been noticeable during the past five years, as shown in the table on page 267.

2. That this increase in imports of foreign commodities may be of such a character that they will not compete with American producers, i. e., tropical foodstuffs, raw

materials, and such luxury goods as silks, laces, precious stones, etc.

RECENT TENDENCIES IN AMERICAN FOREIGN TRADE

These changes are consistent with recent tendencies in our foreign trade and reflect the great change that has come about in the nature of the American economic organization—the change from a predominantly agricultural to a highly industrial nation.

Prior to 1896 the export trade of the United States consisted almost exclusively of agricultural products and raw materials. Although after 1874 there had been a marked increase in our export trade, these exports were made up almost entirely of raw materials and foodstuffs. In the tremendous expansion of our exports which followed the revival of prosperity in 1896 there was a distinct and clearly defined change in the character of our imports and exports. For the first time in its history the United States began to export manufactured products in large quantities.

During the five years immediately preceding the war, the foreign trade of the United States was in a decided state of transition. This had begun before the turn of the century, but from 1910 to 1914 the change was most clearly evident. The exportation of foodstuffs was declining, both relatively and absolutely; home consumption required a larger percentage of our food production and imports of food products were increasing. Though these were made up chiefly of tropical products and luxuries or semi-luxuries, nevertheless, measured by value, we had reached the period before the war when food exports were barely equal to imports.

Our great dependence on the outside world for raw materials for our expanding industries was also significant of the trade between 1910 and 1914. The relative and absolute importance of this item increased on both sides of the trade account, and although exports continued to exceed imports, this condition was largely due to a single commodity—raw cotton—which constituted over one-fourth of all our exports. Excluding raw cotton, however, American exports in crude stuffs were very decidedly less than imports, which were increasing not only in quantity but in variety.

The relatively small contribution of the United States to supplying foreign countries with raw materials other than cotton is likewise significant. In spite of the increasing importance of cotton, agriculture was contributing less and less to our export trade, and the former large balance in agricultural products was being rapidly cut down. Farm products of all kinds were finding markets at home, with a declining surplus for export.

MANUFACTURED GOODS BECOMING CHIEF EXPORT

The increased prominence of manufactured goods in our export trade is, however, the most significant tendency in the period 1910-14. Manufactures ready for consumption reached in 1912-14 a place equal in importance to that occupied by raw materials, including cotton, and were tending upward at a rate which, if normal conditions had continued, probably would have put them decidedly in the lead. In 1913 manufactures for consumption actually did take the lead, due in large measure to the remarkable growth of our export trade in machinery of all kinds, vehicles, iron and steel manufactures, automobiles, etc.; and although, in spite of a marked decline, imports of manufactured goods continued large, a very substantial amount was in luxuries or semi-luxuries such as laces and embroideries, art goods and precious stones.

The war and post-war periods marked the definite triumph of machine industry. With the exception of a great increase in the export of agricultural commodities during the war the tendencies in our foreign trade which had manifested themselves in the pre-war period were continued after the war. The increase in food exports was, of course, due to the unusual and abnormal demands on the part of Europe, which fell off sharply within two years after the signing of the armistice. The export of manufactured goods increased on the one hand while exports of raw materials and foodstuffs, except for the actual period of the war, sharply decreased. The following table shows the changes which have been taking place in the character of our foreign trade:

CHANGES IN CHARACTER OF AMERICAN FOREIGN TRADE

	1880	1910–14	1924	1926
Exports of raw materials and foodstuffs	61%	39%	38%	34%
Exports of manufactured goods	15%	47%	49%	52%
Imports of raw materials and foodstuffs	35%	46%	46%	53%
Imports of manufactured goods	46%	42%	39%	29%

These changes in our foreign trade were the result of economic changes taking place within the United States. It was a part of the transition from agriculture to machine industry. At the close of the war the United States had reached a stage in its economic development where world markets for manufactured goods were becoming increasingly necessary for its future expansion. No longer could the foreign trade of the United States develop passively, as in the past when it consisted chiefly of the products of forest, mine, and farm, which were being sought by the industrial nations of the world. The time had come for active expansion, for seeking markets for American manufactures in competition with producers in other lands. To a greater extent than ever before American goods had to be sold under actively competitive conditions; they were not simply bought without effort on the producers' part.

SUMMARY OF CONCLUSIONS

In view of present trends certain conclusions with respect to the way in which the United States will be able to receive interest and dividend payments on the war debts and private American investments stand out with great clarity.

1. That the growth in payments for services from abroad (the so-called "invisible" items; tourists' expenditures, immigrants' remittances and charity, and freight payments) have become so large that they are almost sufficient to balance off our export balance of trade on current items, (merchandise and precious metals), and also to pay dividends on private American investments abroad and interest and principal payments on the war debts due to the United States Government.

It has been shown that in 1926 our total balance of current transactions, including both visible and invisible items, failed to balance by only $48,000,000; and our net export of capital during that period, when long and short-term investments of foreigners in the United States are taken into consideration, amounted to only $198,000,000. There is ample reason to believe that this state of adjustment will continue in the future. Although interest and dividend payments will continue to grow, it is probable that payments by foreigners to the United States upon service transactions will increase in almost the same proportion.

2. That even if the invisible payments do not keep pace with the growing interest and dividend payments to the United States there is little reason to fear a drastic change from a so-called "favorable" to an "unfavorable" balance of merchandise, because it is probable that any increase in exports will be made up by an increase in our imports of such non-competitive commodities as tropical foodstuffs, laces, embroideries, art goods, precious stones, luxuries and semi-luxuries. An increase in imports of this character may readily take place at the same time that American exports, particularly exports of manufactured products, are expanding.

3. That even if these imports expanded very much more rapidly than our exports and the United States came to have a so-called "unfavorable" balance of trade, this need not in fact be "unfavorable." This unfortunate term is merely an historical survival of a period when it was thought that a nation's primary object was to procure gold, and since gold payments could be procured only by an export balance of trade, this inaccurate term crept into the vocabulary of the economist.

4. That it is really a matter of small concern whether there will be a change from a "favorable" to an "unfavorable" balance of trade, since it is not likely that a decrease in the relative volume of our exports will come about by a diminution in the absolute amount of these exports. Total exports may expand, but imports may expand more rapidly. We may have an import balance and yet a great export of manufactures. Certainly there is no foundation for the fears that have frequently been expressed that, as a result of the receipt of payments of the war debts and dividends on private American investments, the American market will be flooded with foreign goods with disastrous results to American prosperity.

5. That as far as the collection of the war debts is concerned, these payments are so small in relation to the other items entering into our balance of international payments that their effect upon movements of commodities is negligible. In 1926 foreign governments paid us $195,000,000 in the form of interest and principal on war debts, while our exports of merchandise amounted to $4,808,000,000 and such incidental invisible items as tourist expenditures and immigrants' remittances and charity amounted to $741,000,000 and $333,000,000 respectively. Even the maximum receipts from the war debts, $415,000,000 which will come due in about sixty years, would be the equivalent of only 8.6 percent of our merchandise exports in 1926 and only 9.4 percent of our merchandise imports in that year. As the study of the Department of Commerce points out:

> The reduction in our merchandise exports through war-debt payments will injure us precisely as a labor-saving device would injure us; imports, visible and invisible, will come to us without effort; that is, without our being compelled to produce a corresponding value of visible and invisible exports to exchange for them. A nation is not impoverished by receiving wealth.

Nor has the question of the receipt by the United States of the principal on its foreign obligations any great significance in connection with the immediate future of our trade balance. Foreign investment on a large scale becomes in the very nature of the case a permanent annuity and the question of its eventual payment is of little importance to the holders of the securities. Providing the loans are "good," the security holders may liquidate their investments at any time by selling them on the exchanges. All that the situation requires is that they do not all attempt to do so at the same time. Just as there seems no probability in the predictable future that a great railway company will have to pay back to its shareholders the principal they have invested, there also seems no reason to believe that foreign countries will be called upon to pay the principal on the investments of our citizens. The so-called "debt" of foreign countries to the United States is in reality only a business obligation which is partly offset on our part by our obligation or "indebtedness" to foreigners. In the long run the balance will be struck, or the indebtedness written off, not by foreigners paying us back the capital of our investments abroad, as such, but by a gradual and constant increase in their exports of goods and "invisible" services.